

**REPORT OF THE AUDIT OF THE
HENRY COUNTY
SHERIFF**

**For The Year Ended
December 31, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HENRY COUNTY SHERIFF

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts has completed the Henry County Sheriff's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$1,039 from the prior year, resulting in excess fees of \$10,448 as of December 31, 2010. Revenues increased by \$40,964 from the prior year and expenditures increased by \$39,925.

Lease Agreement:

The Sheriff's office is committed to a lease agreement with Duplicator Sales and Service for a copier. The agreement calls for a monthly payment of \$210 for forty-eight (48) months to be completed May 31, 2011. The balance of the agreement as of December 31, 2010 is \$89.

Deposits:

The Sheriff's deposits as of November 30, 2010 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$2,620,032

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Logan Brent, Henry County Judge/Executive
The Honorable Danny Cravens, Henry County Sheriff
Members of the Henry County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Henry County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 25, 2011 on our consideration of the Henry County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable John Logan Brent, Henry County Judge/Executive
The Honorable Danny Cravens, Henry County Sheriff
Members of the Henry County Fiscal Court

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Henry County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 25, 2011

HENRY COUNTY
DANNY CRAVENS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)	\$	20,632
State Fees For Services:		
Return on Fugitives	\$	10,266
Sheriff Security Fees		33,648
Waiting on Court		15,384
		59,298
County Clerk - Delinquent Taxes		27,756
Commission On Taxes Collected		258,207
Other Fees On Taxes Collected		35,177
Fees Collected For Services:		
Auto Inspections		4,445
Accident and Police Reports		964
Arrest Fees		5,782
Serving Papers		43,177
Carrying Concealed Deadly Weapon Permits		4,330
		58,698
Other:		
Contract with City of New Castle		8,333
Interest Earned		789
Borrowed Money:		
State Advancement		80,000
		80,000
Total Revenues		548,890

The accompanying notes are an integral part of this financial statement.

HENRY COUNTY
DANNY CRAVENS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 254,530

KLEFPF Salaries 20,632

Contracted Services-

Advertising 908

Vehicle Maintenance and Repairs 9,270

Materials and Supplies-

Office Materials and Supplies 2,751

Uniforms 8,869

Auto Expense-

Gasoline 27,138

Other Charges-

Serving Papers 7,850

Dues 261

Transport Expense 983

Postage 4,103

Insurance 1,406

Cell Phone 6,084

Miscellaneous 6,141

Miscellaneous Officer Equipment 3,534

Marijuana Eradication 440

Return of Fugitive 6,753

Telecommunications Tax 112

Conventions and Travel 1,755

Training 1,634

Interest 53

Dues 604 \$ 365,811

Capital Outlay-

Office Equipment 6,088

Vehicles 7,721 13,809

Debt Service:

State Advancement 80,000

Total Expenditures \$ 459,620

The accompanying notes are an integral part of this financial statement.

HENRY COUNTY
DANNY CRAVENS, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2010
(Continued)

Net Revenues	\$ 89,270
Less: Statutory Maximum	<u>76,104</u>
Excess Fees	13,166
Less: Training Incentive Benefit	<u>2,718</u>
Excess Fees Due County for 2010	10,448
Payment to Fiscal Court - February 15, 2011	<u>10,448</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent for the first six months and 33.25 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Henry County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

HENRY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2010
 (Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Henry County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 30, 2010 public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$2,620,032

Note 4. Lease

The Sheriff's office is committed to a lease agreement with Duplicator Sales and Service for a copier. The agreement calls for a monthly payment of \$210 for forty-eight (48) months to be completed May 31, 2011. Based on payments already made, the balance of the agreement as of December 31, 2010 is \$89.

Note 5. City of New Castle Contract

The Sheriff's office entered into an agreement with City of New Castle, Kentucky, on July 12, 2010 through December 31, 2010 to provide, at a minimum fifteen (15) hours of police patrol per week within the city limits of New Castle. The Sheriff shall provide comprehensive reports of law enforcement activity to the New Castle City Commission at its regular monthly meeting. The Sheriff shall also provide traffic control and security for all special events conducted within the city. The city of New Castle shall pay a sum of \$20,000 per annum to the office of the Sheriff to be paid quarterly. This amount for CY 2010 was prorated and totaled \$8,333. The Sheriff's deputies performing work under this contract are paid directly by the Sheriff's office. The city of New Castle, per the agreement, will provide the use of one of its vehicles and all related equipment, provide the use of cleaning bay at the New Castle Fire Department, and provide use of the office formerly used by the New Castle Police Department and its computer, subject to FBI computer lab inspection.

Note 6. Other Accounts

The Sheriff has an escrow account used for Sheriff's Horse Sales and Auctions. The beginning balance on January 1, 2010 was \$1. The receipts and disbursements during calendar year 2010 were \$0. The ending balance as of December 31, 2010 was \$1.

The Sheriff established an account in 2008 for the receipt of donations on equipment, or donations paid in lieu of fines. Expenditures from the account are limited to law enforcement equipment for officers. The beginning balance on January 1, 2010 was \$4,676. The receipts were \$3,128 and the disbursements were \$1,322. The ending balance as of December 31, 2010 was \$6,482.

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 7. U.S. Department of Justice Grant

The Henry County Sheriff's office was awarded an \$82,000 grant to be used for officer equipment, direct from the U.S. Department of Justice. The grant funds will be held by the U.S. Department of Justice, and the Sheriff has to apply for reimbursement from these funds when allowable expenditures are made by the Sheriff. There were no receipts or expenditures from this grant during calendar year 2010.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Logan Brent, Henry County Judge/Executive
The Honorable Danny Cravens, Henry County Sheriff
Members of the Henry County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Henry County Sheriff for the year ended December 31, 2010, and have issued our report thereon dated May 25, 2011. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Henry County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



The Honorable John Logan Brent, Henry County Judge/Executive
The Honorable Danny Cravens, Henry County Sheriff
Members of the Henry County Fiscal Court

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Henry County Sheriff's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Henry County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

May 25, 2011

